

Executive Summary

The last quarter of U.S. assistance to Iraq was characterized by continuing steps in the transition from capital reconstruction projects to a focus on capacity-building at the national and local levels of government. As construction projects financed under the Iraq Relief and Reconstruction Fund (IRRF) program approach completion and closeout, coalition and Iraqi partners in each sector are working to facilitate transition to Iraqi control. U.S. investments to date have been significant and continue to yield tangible benefits, as shown by the examples of new public health clinics, increased electricity and oil production, and the transfer of new and rehabilitated water treatment plants to Iraqi responsibility.

This transition is also manifest in the acceleration of U.S. efforts to increase the capacity of Iraq's national ministries and the expansion of programs that extend assistance to provincial and local governments and civil society organizations. Significant improvements in Iraqi budget execution at both the national and provincial levels of government, due in large part to U.S. capacity-building efforts, provide encouraging evidence of greater Iraqi capacity to provide services and spend public resources in an effective and timely manner. Preliminary figures indicate that the national ministries had already expended 24 percent of their allocated capital budgets for 2007 by July 15, as compared to only 15 percent expended during all of 2006.

Fellow donor governments are also working to deliver assistance to Iraq. Most notably this quarter, the Iraqi government authorized the issuing of soft loans from the Government of Japan and the World Bank for infrastructure rehabilitation projects totaling more than \$2.5 billion. At the multilateral level, the United Nations Security Council renewed and expanded the mandate of the United Nations Assistance Mission in Iraq (UNAMI).

Iraq Relief and Reconstruction Fund (IRRF) Summary

The majority of IRRF-funded reconstruction projects are now complete, with more than half of the 311 ongoing projects scheduled to be finished by the end of 2007. To date, 5,278 construction and 12,866 non-construction projects have been completed, the latter comprising mostly small projects funded through USAID in democracy building, economic growth, focused stabilization, health, and education. In the last quarter, from July to September, 76 projects using IRRF funding were completed.

As of mid-September, 96 percent of the total funds apportioned to IRRF had been obligated to specific projects and 88 percent disbursed in payment for completed work. \$402 million is considered "expired funds" that can only be used for claims and adjustments related to existing IRRF-funded contracts. Of the remaining undisbursed funds, the largest shares are obligated in the electricity sector (\$772 million) and the water sector (\$449 million).

Sector	Key Accomplishments
Electricity	<ul style="list-style-type: none"> Record daily rate of 123,430 megawatt hours generated this quarter Average daily peak of 4,800 megawatts generated Average daily hours of power after meeting essential services: <ul style="list-style-type: none"> Nationwide average: 10.8 In Baghdad: 6.5 In Basrah: 16.6 <i>Note: Both supply and average service levels were higher this quarter than the previous quarter. The hours of power in this table are lower than those in the previous 2207 report because of a change in the methodology used to calculate them. Hours of power in this table were calculated using the same methodology used for the Iraq Weekly Status Report. If that methodology had been used for the previous 2207 report, the reported hours of power would have been: nationwide average: 10.6; Baghdad: 5.3; Basrah: 13.2.</i>
Oil	<ul style="list-style-type: none"> 2.17 million barrels per day crude oil production (up from 2.05 million last quarter) 1.71 million barrels per day crude oil exports (up from 1.53 million last quarter)
Water and Sewer	<ul style="list-style-type: none"> Transferred Nassriya Water Supply Project to Government of Iraq this quarter; site includes largest new water treatment plant built in Iraq and serves over 500,000 residents of Thi Qar Province
Health	<ul style="list-style-type: none"> 32 additional Primary Healthcare Centers (PHCs) completed this quarter 29 PHCs now fully operational, compared to eight in the last quarter; each serves approximately 250 patients per day
Education	<ul style="list-style-type: none"> 810 IRRF-funded schools completed to date, providing classrooms for over 323,000 students
Security and Justice	<ul style="list-style-type: none"> Construction to date includes 259 border forts, 397 police facilities, 96 fire facilities, and 164 military facilities
Transportation and Communications	<ul style="list-style-type: none"> 22 ministries with wireless broadband access Eight million people with immediate or near-immediate access to cellular phone service

Key accomplishments this quarter include:

- **Primary Healthcare Centers (PHCs):** The Ministry of Health has confirmed that a total of 66 PHCs have been completed and transferred to the Government of Iraq, of which a total of 29 centers have opened to provide care. Iraq's health sector faces enormous challenges, including a severe shortage of medical staff: the Ministry of Health states that more than 50 percent of its medical staff has fled Iraq in recent years, and current facilities are operating well below capacity. In recognition that a well-trained, professional staff is the core of a health care system, a capacity development and technical training contract was recently awarded to enhance the skills of about 1,400 of those who work in IRRF-financed health sector facilities.
- **Basrah Children's Hospital:** The partners supporting the continuing construction of Basrah Children's Hospital, including the Iraqi Ministry of Health, the Mission's Iraq Transition Assistance Office (ITAO), U.S. Army Corps of Engineers' Gulf Regional Division (GRD), Project HOPE, and the United Nations Development Program, met in September to share information regarding work status and plans and identified challenges and solutions. An Executive Steering Committee has been formed to ensure follow-through on the problems identified, with a milestone date of summer 2008 for the completion of construction.
- **Electricity:** The Ministry of Electricity has recently celebrated record-breaking weeks of generation. These new levels still mean that only between 50 and 60 percent of current demand is met, although government buildings and essential services receive power at all times. Current shortfalls are partly the result of fuel shortages and the use of suboptimal fuels, such as crude and heavy fuel oil, in turbines designed for gas or diesel. Improvements in the Iraqi economy have precipitated increased demands on the national grid, as families purchase consumer appliances (e.g., refrigerators and air conditioners) in numbers not previously available under Saddam's regime. If the Government of Iraq can address fuel issues and expand and rehabilitate generation facilities, the national grid should be able to serve roughly 80 percent of demand by the end of 2008.
- **Water:** The U.S. Government (USG) transferred ownership and responsibility for the \$270 million Nassriya Water Treatment Plant to the Ministry of Municipalities and Public Works in September. The Ministry is making slow progress in providing qualified staff to operate the plant, while U.S. efforts to provide mentoring, technical guidance, and training will continue through December 2007. Plant production will remain limited by the availability of permanent electrical power. Additionally, a total of \$30 million is being provided for technical assistance and equipment to improve the grouting operation at Mosul Dam. Implementation of the program, which has been delayed due to contractor performance issues, should be completed in 2008. The Ministry is also evaluating permanent solutions for mitigating risk at the dam, which was poorly sited under the previous regime.

Economic Support Fund (ESF) Summary:

As IRRF's closeout continues, U.S. assistance efforts have increasingly focused on supporting programs to develop Iraqi capacity through Economic Support Funds (ESF) and other foreign

assistance programs. By September 30, implementing agencies had obligated roughly half of the FY 2007 ESF money received under the initial waiver, in addition to 99 percent of ESF funds from FY 2006.

Continued execution of programs funded with ESF monies will support Iraqi decentralization efforts by empowering provincial and municipal authorities to build strong institutions. Key bodies such as the Provincial Reconstruction Development Councils help coordinate the efforts of local leaders and Provincial Reconstruction Teams (PRTs) to further rehabilitate essential services. Microfinance and employment generation programs are providing economic opportunities in provincial areas and aiding in Iraq's transition to sustainable economic growth. Agribusiness programs help ensure a diversified Iraqi economy based on resources beyond petroleum exports. Finally, democracy programs strengthen the capability of underrepresented groups to participate in the governance process, and elections programs strengthen the country's capacity for conducting effective and credible elections.

Key program accomplishments include:

- **Ministerial Capacity Development:** To accelerate improvement in the performance of key national ministries, we continue to increase the number of public management advisors within these ministries. Thirty-six additional advisors are now working with ministries on capacity development, with 39 additional positions in recruitment or processing. During the past three months, more than 1,200 Iraqi government civil servants were trained in public administration skills, with the total numbers trained reaching 2,400. Training-of-trainers programs remain underway in the ministries to build capacity at an accelerated rate; 130 Iraqi trainers are transferring their new public administration skills to their colleagues. Longer-term initiatives include a scholarship program that supports Iraqis pursuing graduate study in public administration as well as a program to expand the number and capacity of national and regional training centers.
- **Procurement Assistance Center:** The Procurement Assistance Center (PAC) continues to conduct outreach to the ministries at a senior and technical level, meeting with ministerial contracting offices to gather data and provide assistance on budget execution. The success of this effort will depend on the ministries' willingness to accept PAC assistance. As previously reported, the Ministry of Planning and eight provincial governors signed a memorandum of understanding (MOU) in which they agreed to work together using the Provincial Procurement Assistance Teams to improve procurement procedures.
- **Quick Response Fund (QRF):** The PRT Quick Response Fund was initiated in late August as a flexible mechanism to enable PRTs and embedded PRTs to support local neighborhood and government officials and members of community-based organizations. While still in its early stages, the program is quickly becoming a key tool for PRT leaders to engage local communities in developing civil society and promoting effective delivery of local government services.
- **Ambassador's Targeted Development Program (TDP):** September marked the inaugural grant proposals for the new Targeted Development Program (TDP). The program, open to

international and Iraqi non-governmental organizations, is funded by \$57 million from the Economic Support Fund. TDP provides the ambassador and the embassy with the ability to support economic, social, and governance initiatives throughout Iraq. As of September 17, roughly 30 proposals had been submitted to the TDP Program Review Board for approval.

- **Other ESF Programs:** U.S.-funded employment generation programs, specifically USAID's Community Stabilization Program (CSP) and Community Action Program (CAP), continue to play a role in mitigating conflict and helping communities to function. CSP offers employment opportunities to young Iraqi males as an alternative to participation in the insurgency, sectarian violence, or crime. The \$514 million program, which began work in some of Iraq's most violent cities, recently commenced activities in Diyala province as well as in additional sections of Baghdad. As of early September, CSP reported employing more than 64,000 Iraqis. Like CSP, CAP works at the grassroots level to foster citizen involvement in meeting local development needs. Coordinating with Iraqi communities, CAP assists local groups in identifying their common needs and developing targeted projects to achieve their goals. Iraqi youth and others benefiting from the employment and development projects are turning away from violence. As of early September, CAP, now in its second phase, reported employing over 5,000 Iraqis.

Provincial Reconstruction Teams (PRTs)

There are now a total of 25 fully functional PRTs, with 11 PRTs working at the provincial level and another 14 embedded PRTs (ePRTs) in Brigade Combat Teams (BCT) working at the local district and neighborhood levels, in addition to seven smaller Provincial Support Teams (PSTs). The ePRTs are now fully operational, with nine teams located in Baghdad, three in Anbar province, one in Babil, and one in Diyala. The core team consists of a team leader from the State Department, a USAID officer, a military civil affairs officer, and a bilingual, bi-cultural advisor. This team works in conjunction with its area BCT to assist local leaders in providing essential services and reconstruction of their communities with the intent to improve the lives of Iraqi citizens and make counter-insurgency efforts more effective. Over 200 new personnel assigned to PRTs have arrived in theater, including technical personnel with specialties including rule of law, governance, agriculture, and business development. Approximately 111 new personnel are expected to arrive during the present phase of PRT staffing.

Budget Execution

The Government of Iraq has made noteworthy improvements in its capital budget execution that are due in significant measure to U.S. capacity-building efforts. As cited in the September 2007 Benchmark Assessment Report (the Section 1314 report), preliminary Ministry of Finance data indicate that Iraq's ministries have already been able to spend more on capital projects this year through July 15 (24 percent of their allocated capital budgets) than they spent in all of calendar year 2006 (15 percent of ministry capital budgets, or 22 percent if including the KRG; see note below first chart). The Ministries of Oil and Electricity, which together account for nearly 60 percent of the 2007 ministerial capital budget, are in the early stages of making the investments necessary to improve production levels, although Ministry of Oil budget execution is currently below average and significant additional investment in these sectors is still badly needed.

**Government of Iraq Ministerial Budget Execution
Calendar Year 2006**

Ministry	Capital Budget Allocated (millions USD)	Capital Budget Expended to Date (millions USD)	Capital Budget Expended to Date (percentage)
Note that the average capital budget expenditure across all ministries for the entire calendar year 2006 was 15 percent. The figures below represent budget execution by ministries representing 93 percent of the total ministerial capital budget allocation.			
Communication	165	1	<1%
Education	15	16	109%
Electricity	767	267	35%
Health	33	17	51%
Housing & Construction	313	91	29%
Oil	3,533	90	3%
Public Works	237	81	34%
Water Resources	200	91	46%
ALL MINISTRIES	5,681	854	15%

Source: Final Iraqi Ministry of Finance data.

Note: To compare more accurately 2006 and 2007 ministerial capital budget execution, data for the Kurdistan Regional Government, which were originally included in ministerial capital budget execution data for 2006 but not in 2007 data, have been excluded from the above table.

The KRG no longer submits financial data to the Ministry of Finance for inclusion in Government of Iraq official statistics.

**Government of Iraq Ministerial Budget Execution
Year to Date as of July 15, Calendar Year 2007**

Ministry	Capital Budget Allocated (millions USD)	Capital Budget Expended to Date (millions USD)	Capital Budget Expended to Date (percentage)
The preliminary figures below represent budget execution already attained as of July 15, 2007 by ministries representing 85 percent of all capital budgets. Note that these ministries had already executed well above the previous year's performance by July 15.			
Communication	153	67	44%
Education	290	87	30%
Electricity	1,385	354	26%
Health	342	11	3%
Housing & Construction	335	79	24%
Oil	2,381	500	21%
Public Works	345	196	57%
Water Resources	262	105	40%
ALL MINISTRIES	6,438	1,536	24%

Source: Unofficial Preliminary Iraqi Ministry of Finance data as of July 15, 2007.

Note: In 2007, the Iraqi Government employed a new Chart of Accounts under advisement from the IMF, which, in the future, will not differentiate between operating and capital project expenditures.

In addition, the Iraqi government's decision to allocate central government funds directly to the provincial governments has been a success. Through October 6, preliminary PRT data indicate that 60 percent of the total 2007 provincial capital budget of \$2.3 billion has been committed; PRT data also indicate that 96 percent of all 2006 funds have similarly been committed. During calendar year 2007, provincial governments have proven adept at handling the need to commit and disburse both 2006 and 2007 funds simultaneously, although commitments and disbursements of 2007 funds need to accelerate.

The International Compact with Iraq and Other Donor Activities

The Government of Iraq has made steady progress toward carrying out the reform commitments made under the International Compact with Iraq (ICI). Launched in May, the ICI establishes a framework of economic and political reform commitments that will enable Iraq to realize its national vision of a secure, unified, federal, and democratic nation, founded on the principles of freedom and equality, establishing a vibrant private sector, and providing peace and prosperity for its people. At the Compact's launch, Iraq's international partners pledged \$700 million in new assistance, as well as debt reduction that could potentially total \$25 billion.

According to the Mid-Year Progress Report, the Government of Iraq has taken initial steps toward meeting 75 percent of the Compact's 400 benchmarks. Steady progress is being made to build up an efficient, transparent, and equitable framework for public resource management. This includes the drafting of the Revenue Sharing Law and development of a successor to the Development Fund for Iraq. The Iraqi government is also making progress to improve budget planning and execution, in combination with the institution of greater fiscal decentralization. Additionally, initial steps were taken to establish an ICI secretariat, which will help coordinate and focus efforts toward implementation.

To sustain and expand upon these achievements, it is important for the Government of Iraq to receive continued support from the international community. In August, the UN Security Council, at Iraq's invitation, provided the United Nations Assistance Mission in Iraq (UNAMI) with an expanded mandate through UNSCR 1770. In September, the Iraqi Prime Minister and the UN Secretary General chaired a ministerial-level meeting in New York to discuss further progress under the ICI and the effective implementation of UNSCR 1770. The International Reconstruction Fund Facility for Iraq (IRFFI), which provides a multilateral mechanism for donors to contribute to Iraqi reconstruction, attracted an additional \$100 million in the quarter, raising its total funding to more than \$1.7 billion.

Bilateral donors also made major contributions this quarter to reconstruction efforts in Iraq. As part of Japan's preparation of soft loans to Iraq totaling up to \$ 3.5 billion, mainly for infrastructure rehabilitation projects in the energy and other key sectors, the exchange of notes for ten Japanese loan projects worth up to \$2.1 billion have been signed. These concessionary loans will help Iraq recover its industrial strength and provide necessary services such as electricity.

The United Kingdom is helping to establish a series of economic initiatives, including the Basra Investment Promotion Agency, designed to assist the Iraqi government in identifying investment opportunities, and the Basra Development Fund, which will provide investment and credit for small and medium sized enterprises.

Additionally, Iraq's Council of Representatives ratified four loans from the World Bank's International Development Association totaling \$399 million in late July 2007, and the Iraqi government is now completing the legal steps needed to make the loans effective.

Developments in the private sector complemented donor government activities. Notably, two conferences were held in Dubai in September – the Iraq Oil, Gas, Petrochemical, and Electricity Summit and the Iraq Business and Investment Conference – where Iraqi businessmen met foreign investors.